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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

14

# Form 10-Q

GR2-2256

(Mark One)

[ X ] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 1992
OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 0-13984

## DIVERSIFIED HUMAN RESOURCES GROUP, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Texas**<br>(State or other jurisdiction of incorporation or organization) | **75-1565578**<br>(I.R.S. Employer Identification No.) |
| **340 Providence Towers East, LB-5**<br>**5001 Spring Valley Road**<br>**Dallas, Texas**<br>(Address of principal executive offices) | **75244-3910** |

Registrant's telephone number, including area code: **(214) 458-8500**

Former name, former address and former fiscal year if changed since last report: Not Applicable

**Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.** Yes X No ___

Number of shares of common stock of the registrant outstanding on March 31, 1992 was 1,758,211.

**Total Number of pages for this 10-Q filing: 14**

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CONSOLIDATED BALANCE SHEETS

## ASSETS

| | March 31, 1992 (Unaudited) | December 31, 1991 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 44,511 | $ 39,620 |
| Accounts receivable - contractual agreements | 522,582 | 471,955 |
| Receivables from operating divisions | 1,762,369 | 2,113,083 |
| Refundable federal income taxes | 98,769 | 98,769 |
| Notes receivable - operating divisions | 1,328,898 | 1,277,099 |
| Prepaid expenses and other current assets | 5,661 | 9,610 |
| TOTAL CURRENT ASSETS | 3,762,790 | 4,010,136 |
| EQUIPMENT, FURNITURE AND LEASEHOLD IMPROVEMENTS, NET | 22,332 | 26,877 |
| OTHER ASSETS: | | |
| Notes receivable - operating divisions | 6,069,059 | 6,361,055 |
| Royalty receivable - operating divisions | 560,409 | 547,986 |
| Notes receivable - officers/stockholders | 54,000 | 54,000 |
| Other | 152,635 | 152,535 |
| | $10,621,225 | $11,152,589 |

## LIABILITIES AND STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 1,071,746 | $ 1,090,235 |
| Liabilities assumed by operating divisions | 1,762,369 | 2,113,083 |
| Current maturities of long-term debt | 292,387 | 366,325 |
| TOTAL CURRENT LIABILITIES | 3,126,502 | 3,569,643 |
| DEFERRED LEASE RENTS | 118,565 | 126,837 |
| LONG-TERM DEBT | - | 13,165 |
| DEFERRED INCOME - OPERATING DIVISIONS | 522,889 | 337,827 |
| DEFERRED GAIN - SALES OF OPERATING DIVISIONS | 9,002,183 | 9,002,183 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY): | | |
| Preferred stock, $1.00 par value; 1,000,000 shares authorized, none issued | - | - |
| Common stock, $.10 par value; 10,000,000 shares authorized, 1,881,161 shares issued | 188,116 | 188,116 |
| Additional paid-in capital | 3,615,151 | 3,615,151 |
| Accumulated deficit | (5,782,756) | (5,530,908) |
| Common stock held in treasury (122,950 shares) | (169,425) | (169,425) |
| TOTAL STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY) | (2,148,914) | (1,897,066) |
| | $10,621,225 | $11,152,589 |

The Notes to Consolidated Financial Statements are an Integral Part of the Financial Statements.

DIVERSIFIED HUMAN RESOURCES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the three months ended March 31, | |
|---|---|---|
| | 1992 | 1991 |
| INCOME FROM OPERATING DIVISIONS | $ - | $ 166,096 |
| GENERAL AND ADMINISTRATIVE EXPENSES | (246,582) | (642,725) |
| OTHER INCOME (EXPENSES): | | |
| Interest expense, net | (8,190) | (26,256) |
| Other, net | 2,924 | (17,429) |
| | (5,266) | (43,685) |
| LOSS BEFORE INCOME TAXES | (251,848) | (520,314) |
| INCOME TAXES | - | - |
| NET LOSS | $ (251,848) | $ (520,314) |
| LOSS PER SHARE | $ (.14) | $ (.29) |
| WEIGHTED AVERAGE COMMON AND COMMON SHARES OUTSTANDING | 1,758,211 | 1,774,735 |

The Notes to Consolidated Financial Statements are an Integral Part of the Financial Statements.

DIVERSIFIED HUMAN RESOURCES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the three months ended March 31, | |
|---|---|---|
| | 1992 | 1991 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (251,848) | $ (520,314) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 4,545 | 88,276 |
| Amortization | - | 6,650 |
| Benefit for losses on accounts receivable | - | (154,703) |
| Decrease in accounts receivable | - | 478,545 |
| Increase in accounts receivable - contractual arrangements | (50,627) | - |
| Decrease in prepaid expenses and other current assets | 3,949 | 5,577 |
| Decrease in notes receivable officers/stockholders | - | 25,057 |
| Increase in other assets | (12,523) | (2,779) |
| Decrease in accounts payable and accrued expenses | (18,489) | (603) |
| Increase (decrease) in deferred lease rents | (8,272) | (33,061) |
| Increase in deferred income | 185,062 | - |
| Net cash used in operating activities | (148,203) | (107,355) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Increase in notes receivable - operating divisions | (51,799) | - |
| Decrease in long-term notes - operating divisions | 291,996 | - |
| Capital expenditures | - | (3,784) |
| Net cash provided by (used in) investing activities | 240,197 | (3,784) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of notes payable | - | 139,425 |
| Proceeds from factored receivables | - | 96,116 |
| Repayment of short-term debt | (75,500) | - |
| Repurchase of common stock | - | (139,425) |
| Principal payments under long-term debt obligations to financial institutions | - | (38,703) |
| Principal payments under long-term debt obligations to others | (11,603) | (90,385) |
| Net cash used in financing activities | (87,103) | (32,972) |
| Net increase (decrease) in cash and cash equivalents | 4,891 | (144,111) |
| Cash and cash equivalents at beginning of year | 39,620 | 225,226 |
| Cash and cash equivalents at end of year | $ 44,511 | $ 81,115 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | $ 3,443 | $ 26,697 |
| Cash received from income tax refunds | $ - | $ - |
| Decrease in receivables from operating divisions | $ 350,714 | $ - |
| Decrease in liabilities assumed by operating divisions | $ (350,714) | $ - |

The Notes to Consolidated Financial Statements are an Integral Part of the Financial Statements.

**DIVERSIFIED HUMAN RESOURCES GROUP, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1**

**Basis of Presentation**

The consolidated financial statements include the operations of Diversified Human Resources Group, Inc. and its subsidiaries (the Company). The financial information for the three months ended March 31, 1992 is unaudited but includes all adjustments (consisting only of normal recurring accruals) which the Company considers necessary for a fair presentation of the results for the period. The financial information should be read in conjunction with the consolidated financial statements for the year ended December 31, 1991, included in the Company's annual report on Form 10-K. Operating results for the three months ended March 31, 1992, are not necessarily indicative of the results that may be expected for the entire year ended December 31, 1992. Certain 1991 balances have been restated for comparability with the current year presentation.

As a result of the Company's sale of all of its operating divisions effective July 31, 1991, income from the operating divisions is reflected only for the three month period ended March 31, 1991 (see Note 2). Because the sales resulted in the elimination of substantially all operating assets and their related operations, the financial statements at December 31, 1991, reflect the effects of such sold assets; therefore, no separate disclosure regarding discontinued operations has been presented.

Revenue Recognition

The cost recovery method of accounting is being used for recognition of income from sales of the operating divisions until such time as the liabilities assumed by the purchasers of the operating divisions have been substantially satisfied and a collection history on the notes receivable has provided an expectation that the gain from such sales will be reasonably assured (see Note 2).

Prior to July 31, 1991, the effective date of the sale of the operating divisions, fees for placement of permanent personnel were recognized as income at the time the applicants accepted employment. Provision was made for estimated losses in realization (principally due to applicants not commencing employment or not remaining in employment for the guaranteed period). Revenue from temporary personnel placements was recognized upon performance of services.

**Note 2 Sale of Operating Divisions**

General

The following is a description of the sales of the Company's operating divisions which comprised substantially all of the Company's assets. Such sales were closed in September 1991, and the Purchase Agreements transferred control of the divisions to the purchasers effective July 31, 1991. Accordingly, the accompanying Consolidated Statement of Operations includes only income from the operating divisions for the three-month period ended March 31, 1991. The Purchase Agreements which set forth the representations, warranties and covenants of the Company, and the names of the various purchasers, are discussed below.

The Purchase Agreements

In September 1991, the Company entered into four separate Purchase Agreements relating to the sales of the operating divisions of the Company, which agreements are further discussed hereinbelow. Taken as a whole, the Purchase Agreements contemplate the sale of substantially all of the Company's assets. Notwithstanding the above, the Company's intent is not to liquidate and make a distribution to shareholders, but rather to seek other business opportunities outside the personnel employment industry.

On September 3, 1991, the Company entered into the First Agreement and the Second Agreement. The First Agreement, dated August 29, 1991, was made and entered into by the Company and certain of its wholly owned subsidiaries, as sellers, and Veritas, Inc., a Texas corporation ("Veritas"), as purchaser, and Paula K. Morgan and William M. Brothers, both individuals residing in Dallas County, Texas, as guarantors of an interest-bearing promissory note executed by Veritas in favor of the Company pursuant to Veritas' obligations under the First Agreement. Pursuant to the terms of the First Agreement, the Company sold its Administrative Support Group Division and Temporaries Network Division of the Company (collectively referred to as "ASGI and TNI Divisions").

In consideration of the Company's agreement, as amended, to sell to Veritas the ASGI and TNI Divisions, Veritas (i) executed a $600,000 interest-bearing promissory note payable over a three-year period; (ii) executed a $900,000 interest-bearing promissory note to be paid over a six-year period; (iii) assumed various liabilities and obligations of the Company in connection with the operation of the ASGI and TNI Divisions; and (iv) agreed to pay the Company a monthly royalty fee for six years in an amount equal to a percentage of the gross revenues of the ASGI and TNI Divisions over a specified amount, but which royalty fee payable over six years shall be a minimum of not less than $846,300 in the aggregate. In addition, William M. Brothers agreed to transfer back to the Company any and all stock in the Company held by him. Through March 31, 1992, collections aggregating $190,500 under the aforementioned promissory notes have been received in a timely manner. However, as of the date of this report, the Company has not received $25,600 representing a portion of the April 1992 note payments due pursuant to the Purchase Agreement with Veritas. The Company has granted an extension of time for these payments, and is currently evaluating the financial condition of Veritas due to the inability of Veritas to make these note payments timely. In addition, the Company has not received the May 1992 note payments of $35,400 due under the aforementioned notes.

The Second Agreement, dated September 3, 1991, was made and entered into by and among the Company and certain of its wholly-owned subsidiaries as sellers, and P&E Group, Inc., a Texas corporation ("P&E"), as purchaser, and Cary Tobolka, an individual residing in Dallas County, Texas, as guarantor of P&E's obligations under the Second Agreement. Pursuant to the terms of the Second Agreement, the Company sold its Power Division of the Company (the "Power Division").

In consideration of the Company's agreement to sell to P&E the Power Division, P&E (i) executed two interest bearing promissory notes, one in the amount of $450,000, and the other in the amount of $125,000, both of which are to be paid over a six-year period; (ii) assumed various liabilities and obligations of the Company in connection with the operation of the Power Division; and (iii) agreed to pay the Company a monthly royalty fee for six years equal to a percentage of the gross revenues of the Power Division over a specified amount. Through March 31, 1992, collections aggregating $48,600 under the aforementioned promissory notes have been received in a timely manner. However, as of the date of this report, the Company has not received $16,200 representing the April and May 1992 note payments due pursuant to the Purchase Agreement with P&E. The Company has granted an extension of time for these payments, and is currently evaluating the financial condition of P&E due to the inability of P&E to make these note payments timely.

On September 10, 1991, the Company entered into the Third Agreement, by and among the Company and certain of its wholly-owned subsidiaries, as sellers, and Financial Recruiters, Inc. a Texas corporation ("FRI"), as purchaser, and Gary K. Steeds ("Steeds") and Billie J. Tapp, both individuals residing in Dallas County, Texas, as guarantors of an interest bearing promissory note executed by FRI in favor of the Company pursuant to FRI's obligations under the Third Agreement. Pursuant to the terms of the Third Agreement, the Company sold its Diversified Division of the Company (the "Diversified Division").

In consideration of the Company's agreement to sell to FRI the Diversified Division, FRI (i) executed a $4,400,000 interest bearing promissory note in favor of the Company to be paid over a six-year period; (ii) assumed various liabilities and obligations of the Company in connection with the operation of the Diversified Division; and (iii) agreed to pay the Company a monthly royalty fee for six years equal to a percentage of the gross revenues of the Diversified Division over a specified amount. In addition, Steeds agreed to transfer all of his stock in the Company, which stock comprises approximately fifteen percent (15%) of the Company's outstanding stock, to the Company. Through March 31, 1992, the Company had made short term loans to FRI aggregating $200,000 in order for FRI to timely meet its payment obligations of approximately $554,200 under the aforementioned promissory note. Subsequent to signing the Asset Purchase Agreement, FRI amended its charter to change its name to the Management Alliance Group Corp.

On September 19, 1991, the Company entered into the Fourth Agreement, by and among the Company and certain of its wholly-owned subsidiaries, as sellers, and Gary K. Steeds, Inc. a Texas corporation ("GKS"), as purchaser, and Steeds, as guarantor of two interest-bearing promissory notes executed by GKS in favor of the Company pursuant to GKS's obligations under the Fourth Agreement. Pursuant to the terms of the Fourth Agreement, the Company sold its Information Systems Consulting Division and Data Management Search Division of the Company (the "ISC and DMS Divisions").

In consideration of the Company's agreement to sell to GKS the ISC and DMS Divisions, GKS (i) executed two interest bearing promissory notes, one in the amount of $1,100,000, and the other in the amount of $150,000, both of which are to be paid over a six-year period; (ii) assumed various liabilities and obligations of the Company in connection with the operation of the ISC and DMS Divisions; and (iii) agreed to pay the Company a monthly royalty fee for six years equal to a percentage of the gross revenues of the ISC and DMS Divisions over a specified amount. The September and October 1991 payments of $40,750 due under the aforementioned $1,100,000 promissory note have been satisfied by the Company charging the interim accounting balances of the purchaser (the receivable or payable resulting during the period in which the Purchasers' disbursements were made by the Company

on a cost reimbursement basis). The November 1, 1991 through March 31, 1992 collections aggregating $101,890 were received in a timely manner. At March 31, 1992, the interim accounting balance reflects a balance of approximately $90,000 due to the Company.

Pursuant to the terms of the Purchase Agreements, the Company transferred the following with respect to the respective division(s) referred to in each of the four Purchase Agreements:

a. All equipment, furniture, fixtures and supplies owned by the Company and located in, or used in connection with the division(s).

b. All right, title and interest of the Company in and to the accounts receivable relating to the division(s) as of July 31, 1991.

c. All right, title and interest of the Company in and to the corporate names, trade names, operating names and assumed names relating to the division(s).

d. All right, title and interest of the Company in and to all intangible property used in connection with the division(s), including, without limitation, all customer lists, all applicant records, customer credit information, records of sales to customers, business goodwill and the like, relating to the division(s).

e. All right, title and interest of the Company in and to all sales, service and other executory or open contracts in existence on July 31, 1991, relating to the division(s).

f. To the extent allowed by law, all licenses, permits, registrations and other written forms of authorization held by the Company and utilized in connection with the division(s).

g. All right, title and interest of the Company in and to the various employment agreements between the Company and certain employees of the division(s).

h. All right, title and interest of the Company in and to any and all leasehold improvements located on premises subject to certain real property leases, but only to the extent that such real property leases were assumed by the respective purchaser of the division(s).

(As to the First Agreement only, the Company sold all its right, title and interest in and to miscellaneous items of artwork, including certain Icart etchings.)

If a purchaser defaults under the provisions of a purchase agreement, the Company can notify the purchaser in writing of such default. Upon notification, the purchaser has ten days to cure defaults relating to monetary obligations and thirty days to cure non-monetary defaults. If the purchaser fails to cure a default as outlined above, the Company may (1) declare the entire amount due on the notes or any other obligation, (2) terminate the Company's obligations to the purchaser, or (3) take possession or sell any and all collateral, including accounts receivable and other assets of the purchaser in which the Company has a security interest.

Although the Purchase Agreements require the Purchasers to furnish the Company with stipulated periodic reports and to maintain certain contract covenants, certain of the purchasers continue to develop their financial reporting systems. Therefore, the Company's management has allowed certain of the purchasers to provide alternative financial information to the Company during the systems development stage of the purchasers' operations. The contract covenants provide, among other things, salary caps for total payroll, limits on salary advances, and approval by the Company prior to the Purchasers making capital expenditures over specified limits. In addition, inspection of the Purchasers' records and premises are provided to the Company upon reasonable notification to the Purchasers.

Financial Information

The following table sets forth the operating results of the temporary and permanent employment placement divisions for the three-month periods ended March 31, 1992 and 1991, respectively. As a result of the Company's management selling all of its operating divisions effective July 31, 1991, net service revenues and cost of services reflecting divisional operations are shown only for the three-month period ended March 31, 1991.

| | (Unaudited) For the three months ended March 31, | |
|---|---|---|
| | 1992 | 1991 |
| NET SERVICE REVENUES: | | |
| Permanent professional | $ - | $ 2,828,584 |
| Permanent clerical | - | 228,200 |
| Temporary clerical | - | 2,236,643 |
| Contract labor | - | 1,251,340 |
| | $ - | 6,544,767 |
| COSTS AND EXPENSES: | | |
| Cost of services and agency expenses | - | 6,378,671 |
| INCOME FROM OPERATING DIVISIONS | $ - | $ 166,096 |

Cost of services and agency expenses consist of expenses for the operation of agencies (principally commissions, direct wages paid to temporary personnel, payroll taxes, and rent) and a provision for uncollectible accounts.

The following table sets forth the transfer as of July 31, 1991 of assets and liabilities pursuant to the Purchase Agreements.

| | Veritas, Inc. | P&E Group | Financial Recruiters, Inc. | Gary K. Steeds, Inc. | TOTAL |
|---|---|---|---|---|---|
| Accounts receivable | $1,088,382 | $ 285,748 | $ 913,847 | $ 302,721 | $2,590,698 |
| Equipment, furniture and leasehold improvements, net | 119,116 | 102,508 | 190,132 | 65,484 | 477,240 |
| Intangibles, net | 156,550 | - | - | - | 156,550 |
| Other Assets | 16,210 | 4,816 | 148,438 | 150 | 169,614 |
| Accounts payable, abandoned office reserves, accrued rents and expenses, notes and capital lease obligations | (912,232) | (279,329) | (1,737,718) | (541,521) | (3,470,800) |
| Net | $ 468,026 | $ 113,743 | $ (485,301) | $ (173,166) | $ (76,698) |

The excess of the aggregate sales price over the aggregate net book basis of assets sold and liabilities assumed pursuant to the Purchase Agreements is reflected in the Deferred Gain from the Sales of Operating Divisions in the Consolidated Balance Sheets at March 31, 1992 and December 31, 1991. No income was recognized during the three-month periods ended March 31, 1992 or 1991 with respect to the sales of the divisions.

Although the purchasers, under the terms of the Purchase Agreements, assumed the liabilities stated above, the Company remains liable for the unpaid balance of these obligations at March 31, 1992. In addition, the Company remains liable under substantially all of its long-term lease obligations for office space. These leases were executed by the Company, and it is believed that the landlords will continue to hold the Company primarily responsible for satisfying the terms of the agreements, even though the purchasing entities are currently making lease payments directly to their respective landlords. The Company plans to assign these obligations or allow the various purchasers to assume these obligations directly. Pursuant to the terms of the sublease agreements with the various entities,

the lease payments are required to be paid by the entity assuming such lease. Therefore, the Company has reversed approximately $747,000 in deferred lease rents relating to lease obligations assumed, and reflected the benefit in the Deferred Gain from the Sales of Operating Divisions in the Consolidated Balance Sheet. At March 31, 1992, all of the current monthly lease payments required to be paid by the purchasers under the sublease agreements with the Company have been made. However, certain past due lease obligations due to the landlords by the Purchasers have not been paid pending final negotiations of deferred payment arrangements between the Company and some of its landlords.

As to those leasehold premises which the Company has not abandoned, the Company is currently engaged in negotiations with many of its lessors to negotiate payouts of past due rent owed by the Company as a result of its inability to make certain monthly rental payments during the second and third quarters of 1991, which inability was caused by the financial difficulties the Company experienced prior to and during those periods. The aggregate amount of past due rental payments owed by the Company under the occupied leases was approximately $482,000 and $504,000 as of March 31, 1992 and December 31, 1991, respectively. Pursuant to the terms of the Purchase Agreements, substantially all of these obligations were assumed by the Purchasers. The various Purchasers have made all rental payments for those leases where payment terms have been finalized.

In addition to the Federal payroll tax liabilities discussed in Note 3, the Company remains liable for the July 31, 1991 balances of the trade payables and capital lease obligations (assumed pursuant to the Purchase Agreements) unpaid at March 31, 1992. The Company and the purchasers have entered into negotiations with many of the Company's trade vendors requesting discounted payment terms and extended payout schedules.

At March 31, 1992, the unpaid obligations assumed were as follows:

| | |
|---|---|
| Accounts payable | $ 609,303 |
| Delinquent payroll tax withholdings | 122,021 |
| Closed office reserves | 147,330 |
| Notes payable - current | 4,190 |
| Capital lease obligations - current | 37,253 |
| Notes payable - long-term | 78,507 |
| Capital lease obligations - long-term | 5,485 |
| | $1,004,089 |

Of the $3.5 million in obligations assumed by the Purchasers at July 31, 1991, approximately $2.5 million have been paid or settled at March 31, 1992. In addition, the following obligations of the Purchasers were incurred by the Company on a cost reimbursement basis subsequent to July 31, 1991:

| | |
|---|---|
| Accounts payable | $ 94,900 |
| Payroll taxes payable | 238,715 |
| Accrued rents and expenses | 424,665 |
| | $ 758,280 |

Total obligations to be repaid by the Purchasers at March 31, 1992 were $1,762,369.

**Note 3**

**Federal Withholding Taxes in Arrears**

At March 31, 1992, the Company was approximately $367,000 in arrears in Federal and state payroll tax liabilities and has recorded approximately $180,000 in related accrued penalties and interest which the Internal Revenue Service has determined to be owed. The Company has filed a claim for abatement of a substantial portion of these penalties, and has entered into discussions with the Internal Revenue Service seeking a twelve-month payment plan in which to retire this outstanding liability. Pursuant to the terms of the Purchase Agreements, the various entities have assumed their respective related payroll tax liabilities, of which $361,000 was unpaid at March 31, 1992.

**DIVERSIFIED HUMAN RESOURCES GROUP, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1**

Basis of Presentation

The consolidated financial statements include the operations of Diversified Human Resources Group, Inc. and its subsidiaries (the Company). The financial information for the three months ended March 31, 1992 is unaudited but includes all adjustments (consisting only of normal recurring accruals) which the Company considers necessary for a fair presentation of the results for the period. The financial information should be read in conjunction with the consolidated financial statements for the year ended December 31, 1991, included in the Company's annual report on Form 10-K. Operating results for the three months ended March 31, 1992, are not necessarily indicative of the results that may be expected for the entire year ended December 31, 1992. Certain 1991 balances have been restated for comparability with the current year presentation.

As a result of the Company's sale of all of its operating divisions effective July 31, 1991, income from the operating divisions is reflected only for the three month period ended March 31, 1991 (see Note 2). Because the sales resulted in the elimination of substantially all operating assets and their related operations, the financial statements at December 31, 1991, reflect the effects of such sold assets; therefore, no separate disclosure regarding discontinued operations has been presented.

Revenue Recognition

The cost recovery method of accounting is being used for recognition of income from sales of the operating divisions until such time as the liabilities assumed by the purchasers of the operating divisions have been substantially satisfied and a collection history on the notes receivable has provided an expectation that the gain from such sales will be reasonably assured (see Note 2).

Prior to July 31, 1991, the effective date of the sale of the operating divisions, fees for placement of permanent personnel were recognized as income at the time the applicants accepted employment. Provision was made for estimated losses in realization (principally due to applicants not commencing employment or not remaining in employment for the guaranteed period). Revenue from temporary personnel placements was recognized upon performance of services.

**Note 2 Sale of Operating Divisions**

General

The following is a description of the sales of the Company's operating divisions which comprised substantially all of the Company's assets. Such sales were closed in September 1991, and the Purchase Agreements transferred control of the divisions to the purchasers effective July 31, 1991. Accordingly, the accompanying Consolidated Statement of Operations includes only income from the operating divisions for the three-month period ended March 31, 1991. The Purchase Agreements which set forth the representations, warranties and covenants of the Company, and the names of the various purchasers, are discussed below.

The Purchase Agreements

In September 1991, the Company entered into four separate Purchase Agreements relating to the sales of the operating divisions of the Company, which agreements are further discussed hereinbelow. Taken as a whole, the Purchase Agreements contemplate the sale of substantially all of the Company's assets. Notwithstanding the above, the Company's intent is not to liquidate and make a distribution to shareholders, but rather to seek other business opportunities outside the personnel employment industry.

On September 3, 1991, the Company entered into the First Agreement and the Second Agreement. The First Agreement, dated August 29, 1991, was made and entered into by the Company and certain of its wholly owned subsidiaries, as sellers, and Veritas, Inc., a Texas corporation ("Veritas"), as purchaser, and Paula K. Metzgar and William M. Brothers, both individuals residing in Dallas County, Texas, as guarantors of an interest-bearing promissory note executed by Veritas in favor of the Company pursuant to Veritas' obligations under the First Agreement. Pursuant to the terms of the First Agreement, the Company sold its Administrative Support Group Division and Temporaries Network Division of the Company; (collectively referred to as "ASGI and TNI Divisions").

**Management's Discussion and Analysis of**
**Financial Condition and Results of Operations**

Three Months Ended March 31, 1992 Compared to Three Months Ended March 31, 1991:

As more fully discussed in Note 2 in the Notes to Consolidated Financial Statements contained herein, the Company sold its operating divisions to various entities effective July 31, 1991. Accordingly, the accompanying Consolidated Statement of Operations for the three-month period ended March 31, 1991 includes income from divisional operations for the first quarter of 1991; whereas, no income from divisional operations was recognized for the first quarter of 1992. Therefore, income from divisional operations for 1992 and 1991 is not comparable.

Income from the sales of the operating divisions is being recognized on the cost recovery method until such time as the assumed liabilities have been substantially satisfied and a collection history on the notes receivable has provided an expectation that the gain from such sales can be reasonably assured. No income was recognized during the first quarter ended March 31, 1992.

General and administrative expenses decreased by approximately $396,000, or 62%, over the comparable first quarter of 1991. This is primarily the result of a decrease in payroll, rent, and legal and professional expenses, which decrease is attributable in part to the sale of the operating divisions of the Company.

Interest expense decreased by approximately $18,000, which is the result of a decrease in charges relating to factored accounts receivable during the first quarter of 1991.

Liquidity and Capital Resources

Working capital was $636,000 at March 31, 1992, compared with $440,000 at December 31, 1991. This increase of $196,000 during the first quarter of 1992 can be attributed to the increase in current notes receivable - operating divisions, an increase in accounts receivable - contractual agreements, and a decrease in current maturities of long-term debt.

Cash flow used in operating activities of $148,000 resulted primarily from the net loss from operations offset by an increase in deferred income during the first three months of 1992.

Net cash provided by investing activities of $240,000 resulted primarily from principal note collections on the notes receivable from the sales of the operating divisions.

The impact of inflation has not had a significant effect on the Company's operating results.

During the first seven months of 1991, the Company continued to experience weak demand for its services and, as a result, the Company sustained substantial operating losses. In addition, the Company's liquidity was also significantly impaired, such that the Company was not able to meet its current obligations solely from operating cash flows. As a result, the Company became delinquent with several trade vendors and its landlords for leased office space. During 1991, the Company had entered into negotiations with each of its landlords requesting a deferred payment arrangement of approximately three months of past due rent (approximately $504,000) to be paid over various periods ranging from three to twenty-four months. The terms of the deferred payment arrangements with some of the landlords have not been finalized.

In April of 1991, the Company experienced a change in control when USFG-DHRG #1 LTD., a Texas limited partnership, acquired a 51.1 percent controlling interest in the outstanding Common Stock of the Company. Subsequent to that event, a number of the directors of the Company resigned and were replaced by new directors elected by the remaining directors of the Company, to serve only for the remainder of the terms of the resigning directors. The new Board of Directors evaluated the financial situation of the Company and determined the Company would probably become insolvent in the event it did not find a source or sources of new capital. In addition, the Board of Directors considered the lack of other viable alternatives to finance payment of past due obligations and the continued operations of the Company. Therefore, after organizing the operations of the Company into fewer divisions, and requiring the divisions to reduce overhead and expenses within new budgets, the Board of Directors approved the plan to sell the Company's operating divisions for an aggregate sales price of $11,833,000, including the liabilities assumed, in an attempt to realize the value of the underlying assets of the Company, enhance the financial position of the Company by converting assets to notes receivable, and eliminate a substantial portion of the outstanding obligations of the Company by requiring each of the various

At March 31, 1992, the Company was in default on principal payments due under a $95,000, 9% adjustable rate demand note payable to the Federal Deposit Insurance Corporation (FDIC); a $9,200, 10% note due January 13, 1991; and a $11,467 note due September 1991. During the year ended December 31, 1991, the Company agreed to terms with the FDIC to retire the demand note under substantially the same provisions of the agreement with the bank originally holding the demand note. As of the date of this report, the Company has not made arrangements to retire these obligations. In addition, the creditors have not brought suit against the Company. The Company has continued to seek funds to retire these outstanding obligations. At March 31, 1992, the Company was four installments in arrears on a 10% promissory note due to a former officer and director. One-half of this obligation is required to be paid by the purchaser pursuant to the terms of a Purchase Agreement.

Subsequent to March 31, 1992, the Company successfully concluded its negotiations for the termination of its Corporate office lease consisting of approximately 12,000 square feet with future minimum lease payments of $929,000. Pursuant to the terms of the security agreement and termination of the lease agreement, the Company agreed to a settlement consisting of a $183,000 note to be paid over a 55-month period with interest at 9% per annum. The settlement loss of $183,000 will be offset by the recognition of deferred lease benefits associated with this lease. In connection with the termination of the Corporate office lease, the Company modified its agency lease to reduce the rental rate by $2.00 per square foot on the remaining 28,000 square feet at this location. The termination and modification agreements result in savings of approximately $17,000 per month for the Company and the Purchasers.

The effects of the transactions contemplated by the Purchase Agreements have resulted in a positive working capital position for the Company of $636,000 and $440,000 at March 31, 1992 and December 31, 1991, respectively. In addition, management anticipates that the collections on the notes receivable from the sale of the operating divisions will provide adequate liquidity to fund ongoing operations, and contribute to the settlement of the Company's past due payables. The Board of Directors anticipates that the proceeds generated from the issuance of the aforementioned Preferred Stock, when combined with the payments to be received under the promissory notes executed in favor of the Company in accordance with the terms of the Purchase Agreements, should be more than sufficient to satisfy the operational expenses that the Company will incur during the year ended December 31, 1992, including an estimated $200,000 in current Federal and state income taxes resulting from the tax recognition of the sales of the operating divisions.

Presently, the Company's only major source of income relates to the notes receivable from the sales of its operating divisions. The Company expects to redirect its activities into financial investments and natural resource management, and will explore potential opportunities in various activities. These activities may include asset management, the purchase and sale of notes and properties, and investments in oil and gas properties and other mineral interests.

## PART II OTHER INFORMATION
## DIVERSIFIED HUMAN RESOURCES GROUP, INC. AND SUBSIDIARIES

**Item 1. LEGAL PROCEEDINGS**

Not Applicable.

**Item 2. CHANGES IN SECURITIES**

Not Applicable.

**Item 3. DEFAULTS ON SENIOR SECURITIES**

Not Applicable.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not Applicable.

**Item 5. OTHER INFORMATION**

Not Applicable.

**Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

Not Applicable.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIVERSIFIED HUMAN RESOURCES GROUP, INC.
Registrant

DATE: May 18, 1992

By: _____
Donald R. Ditto, Jr., Chief Executive Officer and President

DATE: May 18, 1992

By: _____
Jeffrey A. Loadman, Treasurer